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Steinmetz $9 Billion Fortune at Risk in Soros-Backed Probe

Lansana Conte, the former dictator of Guinea, once held sway over an asset that mining companies craved: the world's largest undeveloped iron ore deposit, valued today at as much as $50 billion.

BSG Resources Ltd., the diamond producer controlled by Israeli billionaire Beny Steinmetz, was among those firms that came calling starting in 2005. The perks allegedly offered: A gift of a $60,000 diamond-studded gold watch and the promise of a $2.5 million commission to Conte's wife if BSGR got the mining license. In 2008, BSGR was awarded the license.

Today Conte is dead, three people are under arrest and Steinmetz's $8.9 billion fortune is threatened. U.S. prosecutors are probing whether a man linked to BSGR paid Guinean officials as much as $12 million in bribes for obtaining mining rights to a portion of the site. Citing similar suspicions, the new Guinean government has said it might strip Steinmetz's company of the license -- putting at risk a $2 billion payment he's due and the reputation of a key figure in the global trade in high-end diamonds.

"As a scion from a notable traditional diamond family, he grew up knowing that what makes a man is his reputation," said Chaim Even-Zohar, the author of "The Steinmetz Diamond Story," a book on the billionaire's business. "My guess would be that he is deeply hurt."

Payoff Report

The allegations of payoffs are detailed in a 28-page report, obtained by Bloomberg, prepared by U.S. law firm DLA Piper. The firm was hired by Guinea at the recommendation of hedge fund billionaire George Soros, 82, who's advising the government through his foundations. Soros, who regularly backs young democratic governments in eastern Europe and Africa, funded the initial DLA Piper investigation, said a person familiar with the matter who asked not to be identified discussing a private issue. His aim was to provide legal counsel to the government that could match the resources of big mining companies, the person said.

Steinmetz and BSGR, based in Guernsey, deny wrongdoing in Guinea and describe themselves as victims of a conspiracy by current Guinea President Alpha Conde and Soros to revoke the firm's mining license.

BSGR "became the victim of numerous extortion attempts by individuals who were seeking economic gains," it said today in an e-mailed statement. "The modus operandi of these attempts involved at times the use of forged documentation, blackmail and harassment. BSGR is confident that its activities and position in Guinea will be fully vindicated."

Better Terms

The 57-year-old Steinmetz's troubles show the high stakes for resource firms as increasingly assertive African countries, backed by Western donors and governments, re-open mining contracts to hunt for past impropriety and win better terms for citizens. The probes have slowed development of the Guinea site, known as Simandou, whose mining rights are also held by companies including Rio Tinto Group (RIO) and Vale SA. The mountain-top site contains an estimated 26.5 billion metric tons of iron ore resources, said Paul Gait, a mining analyst at Sanford C. Bernstein Ltd. in London.

"This is the most prospective, highest-grade deposit of as yet undeveloped iron ore in the world," Gait said.

Born in Israel, Steinmetz grew up in the family diamond business, Steinmetz Diamond Group, founded by his father in 1940. The closely held company specializes in the largest and most valuable stones, among them the 203-carat Millennium Star Diamond unveiled by De Beers SA to mark the year 2000. New York-based Tiffany & Co. (TIF) loaned BSGR $50 million in 2011 to expand a mine in Sierra Leone. Steinmetz also supplies diamonds to New York-based Sotheby's Holdings Inc. for the auction house's product line.

'Hard-Nosed'

The diamond group is valued at about $3 billion, accounting for the biggest portion of Steinmetz's wealth, according to the Bloomberg Billionaires Index. The family's other interests include mining, oil, gas and real estate.

"In business he is very hard-nosed, maybe bordering on the ruthless -- but always legitimate and fair," said Even-Zohar of Steinmetz, whom he counts as a "good friend."

The Simandou controversy traces back to 1997, when London-based Rio Tinto was granted a government license to explore the iron ore mine. In 2008, a few months before he died, Conte stripped Rio of half its license, claiming that it wasn't developing the site quickly enough. The government then awarded it to BSGR for free, which is typical in the industry. The company began spending $160 million preparing the remote site for mining.

Vale Stake

After 18 months, in 2010, BSGR agreed to sell 51 percent of the stake to Brazil's Vale for $2.5 billion. Vale paid $500 million upfront and the two firms set up a joint venture to develop the site. The remaining $2 billion has not been paid.

"It was an extraordinary deal given its scale," said John Meyer, an analyst with London-based SP Angel Corporate Finance LLP.

Vale has said it's not implicated in the investigations.

A New York grand jury started its probe earlier this year into whether BSGR violated the Foreign Corrupt Practices Act by delivering bribes, according to prosecutors. The law bars companies with American links from engaging in bribery abroad. A portion of the alleged payments were sent to the U.S., prosecutors said.

On April 25 the grand jury indicted Frederic Cilins, a French citizen, on charges of witness tampering and obstructing the Guinea investigation. Cilins was described by Guinean Justice Minister Christian Sow as an "agent" of BSGR.

Widow Informant

In March he had met in Jacksonville, Florida, with a woman who was wearing a wire, and offered her more than $1 million in exchange for help burning documents related to the BSGR deal, according to the federal complaint.

The woman was Mamadie Toure, a widow of former president Conte who turned FBI informant in the hopes of reducing her own charges, according to a person familiar with the investigation.

The DLA Piper report described Cilins as an intermediary for payments from BSGR to Conte's wives and for "gifts" to members of the president's family and government officials. Cilins denies wrongdoing. BSGR today said it sought to work with Cilins and two other men, through a company called Pentler Holdings, from 2006 because BSGR lacked a "permanent presence in Guinea."

Pentler took a 17.7 percent stake in BSGR's Guinea unit in March 2006 before it was bought out by BSGR two years later, which is when the arrangement with Cilins ended.

In U.S. federal prosecutions, lower-ranking defendants are often offered lighter sentences in exchange for agreeing to testify against figures more central to alleged crimes.

License Review

The Guinean government began reviewing the Simandou license soon after Alpha Conde took office in 2010 as the country's first freely elected president. Based on the DLA Piper report and its own investigation, the government last month arrested two BSGR employees in connection with the probe: Ibrahima Sory Toure, Mamadie Toure's brother who was director of external relations, and Issaga Bangoura, a security official. Both men have denied wrongdoing.

BSGR has fought back vigorously. It's taken aim at Soros, Conde and Rio Tinto, which it says established a "covert special project group dedicated to

committing espionage" and harassed its workers by buzzing them with low-flying helicopters.

Public Relations

BSGR has also sued its former public relations adviser, FTI Consulting, accusing it of abetting a "smear campaign" directed by Soros. Soros is "determined to ensure" that the mining license "was withdrawn/canceled" by the government of Guinea, according to the lawsuit. It cited alleged comments by FTI executives that Soros had a "personal obsession" about BSGR.

Soros rejects the claim that he engaged in a smear campaign and that he conspired to strip Steinmetz's license, a spokesman for Soros Fund Management LLC said in an e-mailed statement.

FTI and Mark Malloch-Brown, its chairman for Europe, the Middle East and Africa, deny working against BSGR and said they will contest the claim. Rio Tinto declined to comment.

Conde, who took office promising to root out corruption, has attracted significant foreign backers. Soros's Revenue Watch Institute, an offshoot of his Open Society Foundations, advised Conde on a new mining code and anti-corruption measures, the person familiar with his activities said. Global Witness, an anti-corruption group whose advisory board includes Soros's son Alexander and which he funds, chronicles alleged wrongdoing in Guinea.

'Personal Relationship'

And former British Prime Minister Tony Blair established a relationship with Conde through his African Governance Initiative, which set up an office in Conakry, Guinea's capital, to assist his presidency. Conde last year secured $2.1 billion in debt relief from the International Monetary Fund and World Bank, a recognition of his move to civilian rule.

"The personal relationship between Mr. Soros, Mr. Blair, and Mr. Conde is really important, and has an impact in terms of reassuring leaders that we are going in the right direction," Guinean Finance Minister Kerfalla Yansane said by phone. "At this juncture we need big support to challenge these companies, who can hire lawyers and PR firms and have resources we don't."

Guinea isn't the only African state where deals with middlemen have led to controversy for international mining groups. Eurasian Natural Resources Corp., a London-based, Kazakh-backed mining firm, is being probed by U.K. prosecutors into allegations it paid bribes to win business in Kazakhstan and Africa. The company said on April 25 that it is cooperating with authorities. And countries including Ghana and Zambia are driving a harder bargain with mining firms, reviewing taxation and state-ownership clauses.

High Stakes

The stakes for getting Simandou mined are high for Guinea, whose population is about 11 million. It ranks 178th out of 187 nations on the UN Human Development Index, which measures indicators of poverty and health.

“The economic growth profile of the country is expected to completely be changed” by the mine, Yansane said.

Rio Tinto CEO Sam Walsh has said the company, which says it has spent $2.3 billion at the site, is committed to developing its portion of Simandou. It predicted production would start in 2015.

BSGR has also said it’s committed to developing Simandou, and remaining in Guinea despite the corruption allegations.

The government realizes the Steinmetz controversy may spook the investors it needs to raise living standards, Yansane said. For that reason, “We want this problem resolved as quickly as possible,” he said. “We don’t want the name of the country to be on the front page of newspapers all the time.”

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